

Credit For Taxes Paid to
Another State or Country

1996

For the calendar year 1996, or fiscal year

beginning _____, 19_____, and ending _____, 19_____

Attach to your return

Name(s) as shown on Form 140, 140PY, 140NR or 140X	Your social security number		
	Spouse's social security number		

Part I Computation of Income Subject to Tax by Both Arizona and the Other State or Country During 1996

Enter name of other state or country _____

	(a)	(b)	(c)
1 Description of Income item(s)			
2 Amount of income from item listed on line 1, reportable to both Arizona and the other state or country			
3 Portion of income included on line 2 subject to tax by Arizona.			
4 Portion of income included on line 2 subject to tax by the other state or country			
5 Amount of income from item listed on line 1 which is subject to tax by both Arizona and the other state or country. Enter the lesser of amount entered on line 3 or line 4.			
6 Total income subject to tax in both Arizona and the other state or country. Add line 5, columns (a), (b), and (c).			6 _____

Part II Computation of Other State or Country Tax Credit (Read specific line instructions for Part II before completing this part.)

7 Arizona tax liability less any credits (except other state tax credit)	7		
8 Amount from Part I, line 6	8		
9 Entire income upon which Arizona tax is imposed - see instructions	9		
10 Divide the amount on line 8 by the amount on line 9 (100% maximum)	10		%
11 Multiply the amount on line 7 by the percent on line 10	11		
12 Income tax paid to (name of other state or country) _____. See instructions	12		
13 Amount from Part I, line 6	13		
14 Entire income upon which other state's or country's income tax is imposed - see instructions page 4	14		
15 Divide the amount on line 13 by the amount on line 14 (100% maximum)	15		%
16 Multiply the amount on line 12 by the percentage on line 15	16		
17 Allowable credit for taxes paid to the above named other state or country. Enter the lesser of line 11 or line 16 - see instructions	17		

NOTE: A separate form must be filed for each state or country for which a credit is claimed.

Example:**Facts:**

Mr. and Mrs. M are Arizona residents. Mr. M is an active duty military member who is stationed in State X. Mr. M receives wages from the military and from a part-time job in State X. Mrs. M receives wages from employment in State X. During the taxable year for which the credit is being claimed, Mr. and Mrs. M received the following income.

Mr. M's military wages	\$ 15,000
Mr. M's part-time employment wages	\$ 5,000
Mrs. M's part-time employment wages	\$ 5,000
Total income	<u>\$ 25,000</u>

As Reported on State X Return		As Reported on Arizona Return	
Federal adjusted gross income	\$ 25,000	Federal adjusted gross income	\$ 25,000
Less non-state X income (military)	(15,000)	Less dependent exemption	(2,300)
Less subtraction for two earner income	<u>(1,000)</u>	Arizona adjusted gross income	<u>\$ 22,700</u>
State X adjusted gross income	<u>\$ 9,000</u>		

Mr. and Mrs. M must include Mr. M's part-time employment wages of \$5,000 and Mrs. M's part-time employment wages of \$5,000 in both the Arizona adjusted gross income and the State X adjusted gross income. Therefore, the amount of wage income reportable to both Arizona and State X is \$10,000. Since there are no additions or subtractions related to that income required under Arizona law, \$10,000 of that income is subject to tax by Arizona. However, since \$1,000 of the \$10,000 wage income is subtracted From State X adjusted gross income under State X law, only \$9,000 of that \$10,000 is subject to tax by State X. Mr. and Mrs. M complete lines 1 through 6 of Arizona Form 309 as follows:

1. Description of income items.	(a) wages
2. Amount of income from item listed on line 1, reportable to both Arizona and the other state or country.	\$10,000
3. Portion of income included on line 2 subject to tax by Arizona.	\$10,000
4. Portion of income included on line 2 subject to tax by the other state or country.	\$9,000
5. Amount of income from item listed on line 1 which is subject to tax by both Arizona and the other state or country. Enter the lesser of amount entered on line 3 or 4.	\$9,000
6. Total income subject to tax in both Arizona and the other state or country.	\$9,000

Example:

The following example will illustrate how to figure a credit for taxes paid to another state.

Facts:

Mr. and Mrs. F are Arizona residents who derive income from a farm in State XY. During the taxable year for which the credit is being claimed, Mr. and Mrs. F received the following income:

Interest income	\$ 38,000
Dividend income	4,000
Farm income from State XY	16,000
Total income	<u>\$ 58,000</u>

As Reported on State XY Return		As Reported on Arizona Return	
Federal taxable income	\$ 46,200	Federal adjusted gross income	\$ 58,000
Plus State XY additions	0	Plus Arizona additions	0
Less State XY subtractions	<u>(0)</u>	Less Arizona subtractions	<u>(0)</u>
State XY taxable income	<u>\$ 46,200</u>	Arizona adjusted gross income	\$ 58,000
State XY tax	<u>\$ 913</u>	Less standard deduction	(7,200)
		Less personal exemption	<u>(4,200)</u>
		Arizona taxable income	<u>\$ 46,600</u>
		Arizona tax	<u>\$ 1,531</u>

State XY computes its nonresident tax as follows:

Tax from State XY tax table \$3,308 (on \$46,200)

State XY can only tax a nonresident on income derived from sources within State XY. Therefore, State XY prorates the amount of tax so that tax is imposed only on income derived from sources within State XY. State XY prorates the State XY tax table tax as follows:

State XY income	$\$16,000 = .2759 \times \$3,308 = \$913$
Federal adjusted gross income	\$58,000

Credit Computation:

Mr. and Mrs. F must include State XY farm income of \$16,000 in both the Arizona adjusted gross income and the State XY adjusted gross income. Therefore, the amount of farm income reportable to both Arizona and State XY is \$16,000. Since there are no additions or subtractions related to that income required under either Arizona law, or State XY law, \$16,000 of that income is subject to tax by Arizona and \$16,000 of that income is subject to tax by State XY. Mr. and Mrs. F complete Arizona Form 309 as follows:

Arizona Form 309**Part I - Computation of Income Subject to Tax by Both Arizona and the Other State or Country**

	(a)	(b)
1. Description of income item(s)	farm income	
2. Amount of income from item listed on line 1, reportable to both Arizona and the other state or country.	\$16,000	
3. Portion of income included on line 2 subject to tax by Arizona.	\$16,000	
4. Portion of income included on line 2 subject to tax by the other state or country.	\$16,000	
5. Amount of income from item listed on line 1 which is subject to tax by both Arizona and the other state or country. Enter the lesser of amount entered on line 3 or 4.	\$16,000	
6. Total income subject to tax in both Arizona and the other state or country.		\$16,000

Part II - Computation of Other State or Country Tax Credit

7. Arizona tax liability less any credits (except other state tax credit)	7	1,531	
8. Amount from Part 1, line 6	8	16,000	
*9. Entire income upon which Arizona income tax is imposed	9	58,000	
10. Divide the amount on line 8 by the amount on line 9 (100% maximum)	10	.2759	%
11. Multiply the amount on line 7 by the percent on line 10	11	422	
12. Income tax paid to State XY (tax less credits)	12	913	
13. Amount From Part 1, line 6	13	16,000	
**14. Entire income upon which State XY's income tax is imposed	14	16,000	
15. Divide the amount on line 13 by the amount on line 14 (100% maximum)	15	100	%
16. Multiply the amount on line 12 by the percentage on line 15	16	913	
17. Other state or country tax credit. Enter the lesser of line 11 or line 16	17	422	

*Line 9 - This amount is computed as follows:

Arizona adjusted gross income	\$58,000
Plus dependent, blind and age 65 or over exemptions	0
Entire income upon which Arizona income tax is imposed	<u>\$58,000</u>

**Line 14 - This is the entire income upon which State XY tax is imposed. This is State XY's adjusted gross income equivalent for these individuals. Since these individuals are nonresidents of State XY, State XY adjusted gross income (not including exemptions and standard or itemized deductions), includes only that income which is sourced to State XY. It should be noted that in this case, the entire income upon which State XY income tax is imposed had to be determined. This amount was not specifically shown on a specific line of the State XY return, since State XY computes its tax on the total income and then prorates that tax to reflect the tax attributable to income derived from sources within State XY.

State XY's equivalent of Arizona adjusted gross income is computed as follows:

State XY source farm income	\$16,000
Plus State XY additions related to State XY farm income	0
Less State XY subtractions related to State XY farm income	(0)
State XY adjusted gross income equivalent	<u>\$16,000</u>